because of their low incomes, few benefit from the tax credit. This option would also reduce work disincentives for some low-income parents by offsetting some of the expense associated with going to work.

On the other hand, these measures would require a partial reversal of some recent changes in federal support for dependent care. In creating the SSBG in 1981, the Congress removed the requirements of the predecessor program (Title XX) that benefits be targeted by income and that a specified amount of funding be spent on child care. Moreover, tightening the credit would adversely affect some families--including some with incomes below the median--by increasing their tax liabilities.

AGRICULTURAL PRICE SUPPORTS

Outlays for the Department of Agriculture's price and income support programs have far exceeded levels estimated at the time the Food Security Act of 1985 was passed. Current projections place Commodity Credit Corporation outlays at nearly $75 billion for the three-year period 1986-1988. By comparison, a CBO projection made soon after the bill was signed foresaw outlays of about $64 billion over the same three-year period. Other estimates used by the Congress had been even lower, in the $50 billion to $55 billion range.

Several factors account for this disparity in projected program costs. Good harvests at home and abroad have added to domestic supplies and reduced the demand for U.S. exports. Moreover, expectations of increased sales of U.S. products in response to substantial price reductions appear to have been too optimistic.

The high outlays on farm programs, coupled with concern that the current policies are not working to promote an efficient and competitive agricultural sector and that benefits are not being distributed equitably, have again focused public attention on this sector. At least three general approaches have been put forward:

- Leave current farm programs basically intact while making marginal changes that would reduce outlays. This approach might also include a reduction in benefits to farmers not in need of federal assistance.

- Raise domestic farm prices through higher nonrecourse loan rates coupled with production or marketing controls, while maintaining export markets with explicit export subsidies.

- Cut the link between income support and farmers' production decisions; allow market signals to determine production and resource use.

Current Policy. Proponents of leaving current policy intact argue that it has not had enough time to bring about the responses of producers and users that would lead to reduced program costs and increased U.S. exports. Two budget reduction options (AGR-01 and AGR-02) are discussed that would reduce spending without fundamentally changing the present approach to farm policy: relatively small reductions in target prices and increases in unpaid acreage reduction requirements. Commodity prices would still be affected by the current commodity loan programs, and income support would be provided through deficiency payments.

An additional budget reduction option that might fit within this approach would be to redirect farm program benefits toward farmers judged to be in need of federal assistance (AGR-03). (Such targeting of assistance toward particular groups of farmers could, of course, be combined with more fundamental policy changes.) Budget savings in this case would be achieved primarily by reducing payments to large farmers or those who are presumably less in need of assistance.

Another option that would not fundamentally affect current policy would be to change the Department of Agriculture's generic certificate program to reduce what many view as unintended benefits to farmers and other recipients of the certificates, and the corresponding unintended costs to the federal government (see AGR-04).

Higher Prices. Supporters of raising domestic farm prices argue that under current law farmers are forced to rely heavily on government payments because market prices are too low. Some advocate mandatory production or marketing controls to increase domestic prices and reduce the need for government payments. In order to maintain foreign markets, exports would be subsidized. An alternative examined here (AGR-05) would allow the Department of Agriculture to manage supply through authority already available to it, such as paid acreage diversion, with the aim of raising domestic prices and reducing government payments. The specific option examined is a 20 percent increase in domestic price levels, a much smaller increase than contemplated in most mandatory control proposals.

Decoupling. Advocates of cutting the link between income support and production decisions claim that current programs encourage farmers to overproduce, and also impede the shift of resources from agriculture to other sectors of the economy. "Decoupling" income support and production decisions would allow production to respond to market signals and make agriculture adaptable. Decoupling could take a variety of forms. The option discussed (AGR-06) would replace deficiency payments with an income support payment unrelated to current production.

AGR-01 REDUCE DEFICIENCY PAYMENTS BY LOWERING TARGET PRICES

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1988	1989	1990	1991	1992	
Budget Authority	350	1,100	1,350	1,450	1,750	6,000
Outlays	350	1,100	1,350	1,450	1,750	6,000

Current law allows the Secretary of Agriculture to reduce target prices from levels announced for the 1987 crops of wheat and feed grains by 2 percent in 1988, 3 percent in 1989, and 5 percent in 1990. Cotton and rice target prices can be reduced by 2 percent, 3 percent, and 2 percent over the same period. The CBO baseline assumes that the reduction would be continued in later years. Budget savings could be achieved by reducing target prices faster than allowed in current law. The greater the rate of reduction, the greater would be the savings. One alternative would be to reduce target prices by 5 percent per year starting with the 1988 crops. Outlay savings would be $6 billion over the 1988-1992 period.

A more rapid rate of target price reduction would increase the pace at which farmers begin to respond to market signals in making production decisions, rather than seeking to maximize government program benefits. What some view as a necessary reduction in the resources devoted to agriculture, often referred to as "downsizing," would take place faster if income support were reduced. Others point to the level of target prices relative to market prices as sufficient evidence that they are too high. The current target price for wheat is about 90 percent higher than the projected season average price. The target price for corn is about 70 percent higher, and the target price for cotton about 55 percent higher, than their projected market prices. The target price for rice is more than double the projected price.

Lowering target prices reduces farm income, and would affect some farmers' ability to remain in agriculture. In 1985, over half of deficiency payments went to farmers considered to be financially stressed, a finding that might be cited by both opponents and proponents of this option. On the one hand, most payments are made to farmers whose survival may depend on their receipt. On the other hand, a large amount of payments go to farmers without high debts or negative cash flow, a group who might be considered not to need financial assistance.

In order to be eligible for deficiency payments, farmers must agree to place some portion of their base acreage in a conserving use rather than in their cash crop. Large reductions in deficiency payments might cause many to withdraw from the acreage reduction program, and lead to some offsetting federal costs if additional surplus production had to be removed from the market. But current incentives to participate are so strong that relatively small reductions in target prices, as in this option, would not have substantial effects on program participation.

AGR-02 INCREASE REQUIREMENTS FOR UNPAID ACREAGE REDUCTION

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Budget Authority	900	1,650	1,500	1,400	1,400	6,850
Outlays	900	1,650	1,500	1,400	1,400	6,850

Participants in current price and income support programs are required to set aside some portion of their land normally planted to program crops in order to be eligible for deficiency payments, nonrecourse loans, and marketing loans. The Secretary of Agriculture's discretion to determine the set-aside requirement is limited by law. The maximum requirement allowed on unpaid acreage reduction is 30 percent in the wheat program, 20 percent in feed grains, 25 percent in cotton, and 35 percent in rice. Increasing the requirements for unpaid acreage reduction when excessive stocks exist would permit reductions in federal outlays. A five-percentage-point increase would result in estimated savings of $6.9 billion over the 1988-1992 period. Savings would be achieved in the feed grains programs by substituting unpaid acreage reduction for paid land diversion, which is assumed in the current policy baseline. In the wheat program, savings would result from lower deficiency payments and lower costs of the nonrecourse loan program stemming from reduced production. No cotton or rice program savings are estimated because the current maximum unpaid acreage reduction requirements in these commodities are sufficient to eliminate excessive stocks.

An increase in the requirements for unpaid acreage reduction would mean lower returns to farmers. This decrease would come about in two ways: through lower crop sales and through lower deficiency payments. Opponents argue that farmers cannot afford further reductions in their incomes. They also point to adverse effects on farm suppliers, grain handlers, and others.

AGR-03 TARGET INCOME SUPPORT PAYMENTS TOWARD SPECIFIC GROUPS OF PRODUCERS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Budget Authority	600	1,450	1,300	1,200	1,200	5,750
Outlays	600	1,450	1,300	1,200	1,200	5,750

Income support payments to farmers have risen significantly under the Food Security Act of 1985. The act maintained target prices on major crops at relatively high levels. The government payments are distributed generally according to production levels, with large farmers getting the bulk of the payments. An alternative would be to change the distribution of these payments in favor of small farmers or those in greater need. Redistribution alone, of course, would not reduce federal farm spending; total program benefits would also have to be reduced.

One option would be to reduce target prices for all farmers by 10 percent and redistribute half of the outlay reduction among those farmers selected for special assistance. Participation would not have to be restricted to producers of crops currently under price supports, but could be extended to all farmers meeting eligibility criteria. This option would save an estimated $5.8 billion over the 1988-1992 period.

Other targeting options include a system of "tiered" target prices, in which higher target prices--and thus higher deficiency payments--would be made on an initial increment of production. Target prices would decline with later increments, making the average target price, and average deficiency payment, greater for smaller farmers than larger farmers. Benefits and outlay savings would depend on the levels at which the tiered target prices were set. Outlay savings could result if payments to larger farmers were reduced by a greater amount than benefits to smaller farmers were increased. Benefit increases in this option would be restricted to farmers currently growing program crops.

Currently income support benefits are limited to $50,000 of regular deficiency and diversion payments per recipient and $250,000 for all payments, including marketing loan benefits and the currently exempt portion of deficiency payments. An additional targeting option would be simply to reduce these limitations. This option would not be a means of providing additional assistance to those farmers considered to be in need, but would result in savings by enabling lower payments to large farmers.

Proponents of targeting argue that farm program benefits are not going to those most in need. Financial difficulties are forcing some producers out of business although aggregate farm income is currently quite high, partly owing to large government payments. Targeting of benefits could also aid in promoting the family-sized farming enterprise, a traditional goal of U.S. agricultural policy.

Opponents of targeting--particularly of reducing payments to larger farmers--point out that market prices have declined so much that the financial condition of larger farmers who get most of these benefits has not necessarily improved, and that large reductions in support for such farmers might cause severe financial difficulties for them. Opponents also argue that the supply control measures contained in current programs would be weakened if payment reductions made program participation unattractive for large farmers. Also, targeting certain groups of farmers for special assistance might mean rewarding producers who, at least in retrospect, have made poor financial decisions.

AGR-04 LIMIT THE USES OF GENERIC COMMODITY CERTIFICATES

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Budget Authority	410	400	260	230	100	1,400
Outlays	410	400	260	230	100	1,400

The Department of Agriculture currently provides generic commodity certificates in lieu of cash for some payments to participants in price and income support, export enhancement, and other programs. These dollar-denominated negotiable certificates can be used by producers to repay outstanding nonrecourse loans, can be exchanged by producers or traders for commodities owned by the Commodity Credit Corporation (CCC), or, after a period, may be exchanged for cash. In 1987, $5 billion to $6 billion in certificates are expected to be issued.

These certificates, and the methods currently used to convert them into quantities of commodities, result in increases in Commodity Credit Corporation outlays that exceed the apparent savings from issuing benefits in certificates rather than cash. One popular use, which clearly causes additional federal outlays, is known as "Quick-PIK." In this transaction, a producer places his or her crop under loan at the nonrecourse loan rate and immediately takes it back using PIK certificates, with the exchange taking place at the posted county price (PCP), which can be considerably below the nonrecourse loan rate.

For example, a corn producer places 1,000 bushels of a crop under loan with the CCC at the local loan rate of $1.80 per bushel, thus receiving $1,800. If the producer has received a generic PIK certificate with a face value of $1,500 in lieu of a cash deficiency payment of that amount and the PCP that day is $1.50 per bushel, the certificate can be used to pay off the loan. The producer has transformed a certificate that was received in lieu of $1,500 in cash into $1,800 through this transaction. He or she takes back title to the crop and can sell it at the local market price (which is likely to exceed the PCP), feed it to the livestock, or store it for later sale or use. The transaction has cost the government $300 more than if the original deficiency payment had been made in cash.

Eliminating the Quick-PIK transaction, or requiring current crop loans to be paid off at the loan rate rather than the lower PCP, would save an estimated $1.4 billion over the 1988-1992 period. PIK certificates could still be exchanged for CCC stocks, used to pay off farmer-owned reserve loans, or exchanged for cash. Producers would be no worse off than had they received the original payment in cash, but would lose the benefits of profiting from this transaction.

Proponents of this change argue that the gain realized by producers was not intended by the 1985 act, which authorized use of these certificates, and that the increase in federal outlays is unwarranted. They argue that this transaction has no beneficial effects on the market but is basically a subsidy to farmers and other recipients of certificates.

Opponents argue that the use of generic PIK certificates, and this Quick-PIK transaction in particular, causes prices to be lower than they would otherwise be and encourages increased use of surplus commodities. They also disagree as to the costs of these certificates.

AGR-05 RAISE DOMESTIC PRICES OF SUPPORTED AGRICULTURAL COMMODITIES

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Budget Authority	120	-1,800	900	980	1,730	1,930
Outlays	120	-1,800	900	980	1,730	1,930

The 1985 farm bill sought to make U.S. commodities more competitive in world markets by across-the-board price reductions for both domestic and foreign users. An alternative would be to raise domestic prices while using export subsidies to maintain competitive prices on world markets. If, for example, nonrecourse loan rates for wheat and feed grains were increased sufficiently to raise domestic prices 20 percent above baseline levels in 1988-1992, using export subsidies to maintain exports at levels currently projected, federal outlays would be reduced by an estimated $1.9 billion over the period. This estimate assumes increased use of diversion payments to reduce acreage, as permitted under current law. For some crops, import controls might be needed to limit competition from lower-priced foreign production.

Price increases of this magnitude could be accomplished without accumulating stocks, assuming a relatively small reduction in production through paid land diversion. Most of the federal outlay savings from this option would come from a reduction in support payments to farmers, who would get higher prices from domestic sales. Proponents of such a plan argue that the budget savings would justify the somewhat higher price paid by domestic consumers; prices would still be lower than if the policies of the 1981 farm act had been continued. Proponents also argue that some foreign producers, notably in the European Community, currently have such two-price systems, and that the present approach to competing with them is unduly expensive.

Opponents argue that potential increases in food prices, though quite small in this particular option, would be at the expense of low-income people who spend a relatively large proportion of their income on food. They also argue that such export subsidies would conflict with U.S. trade policy objectives.

AGR-06 REDUCE EFFECTS OF INCOME SUPPORT PAYMENTS ON PRODUCTION DECISIONS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Budget Authority	50	950	-750	250	1,400	1,900
Outlays	50	950	-750	250	1,400	1,900

Price support programs are often criticized as encouraging farmers to overproduce. Some analysts argue that a more efficient agricultural sector, and one more adaptable to changing market conditions, would result from the separation, or "decoupling," of government price supports from production decisions.

One approach would completely separate income support payments from the need to produce the traditionally supported program crops. Payments would be based on a production history for a fixed period, would not rise or fall with market or growing conditions, and could be made to decline over time by some fixed formula. The payments would not depend on whether or not a producer grows a particular crop or on the market price received for the crop. If phased out over time, they could be regarded as a means to support farmers during a transition period in which the farm sector returns to generally free market conditions. A nonrecourse loan, offered at rates below the expected market price, could be used to mitigate the effects of sharp, unanticipated price drops. Some production controls could be employed early in the transition to assist the market in making an orderly move toward less government-dominated conditions.

The cost estimate shown is for one possible specification of this policy option. Direct payments are made to producers of wheat, feed grains, and soybeans. Payments are based on production histories with payment rates being set so that 1988 gross returns are approximately 85 percent of levels projected under current policy. Payments are disbursed using a schedule similar to that now used for making deficiency payments and are assumed to be phased out over a six-year period.

Costs or savings of this option are very sensitive to the choice of payment level and its rate of decline through time. Federal outlays would also be affected by the CCC's disposition of existing stocks, the level of nonrecourse loan activity, and other factors.

Proponents of such a measure argue that an efficient, competitive, and adaptable agricultural sector can only evolve if farming is responsive to market forces. Proponents also point out that this option would make federal spending for agriculture far more controllable and would contribute to better budget planning. Transition payments would also make it easier for some farmers to move out of agriculture into other pursuits.

Opponents argue that to eliminate or weaken price and income stabilization would harm producers and consumers alike. They also believe the measure might lead to sizable reductions in farm land values. Finally, farmers whose crops are not now covered by price supports could eventually face competition from the recipients of transition payments.

NONDEFENSE DISCRETIONARY SPENDING

Spending for nondefense discretionary programs totaled $170 billion in 1986. Programs in this category, which require annual appropriations, include assistance to business and commerce (9 percent), programs providing benefits or services to individuals (35 percent), spending to develop or maintain transportation and other infrastructure (20 percent) and energy and natural resources (10 percent), civilian research and development programs (9 percent), aid to foreign governments and international organizations (8 percent), and justice and general government (9 percent). (These totals include compensation for civilian employees of nondefense agencies, discussed in the Federal Work Force section.)

SPENDING SINCE 1980

Through the late 1970s, nondefense discretionary spending maintained about a 5.5 percent share of gross national product (GNP). Since 1984, however, outlays in this category have accounted for just over 4 percent of GNP. Spending power has fallen 23 percent since 1980, and the share of nondefense discretionary outlays has dropped from around a quarter to just over one-sixth of total federal outlays. The composition of spending within this category has also changed since 1980, reflecting both reduced spending levels and changing federal priorities.

Spending on general government functions, transportation, and the administration of justice remained more or less unchanged (after adjusting for changes in general price levels) between 1980 and 1986. Within transportation, however, spending shifted markedly toward highways, where a 16 percent increase was offset by lower spending for other transport modes.

Spending in all other areas fell (after price adjustments) between 1980 and 1986. Outlays for energy fell by two-thirds; natural resources and agricultural credit, research, and services by one-third; and international affairs by one-fifth. The decline in international spending derives mostly from a 12 percent spending cut in 1986 that reversed earlier increases; the decrease in discretionary spending in agriculture results from a sharp reduction in its credit component.

Federal funding for elementary and secondary education programs increased slightly between 1980 and 1986, but declined by about one-quarter in real terms. Discretionary aid for postsecondary education increased by approximately one-third between 1980 and 1986, thereby declining slightly in real terms. Appropriations for employment and training assistance declined substantially, largely because the Congress eliminated public service employment (PSE) programs. Federal support for housing and community and economic development also fell substantially between 1980 and 1986.

RECENT DEVELOPMENTS

The Congress increased 1987 funding for education programs over 1986 levels. Appropriations for elementary and secondary education rose by more than 10 percent in real terms, with major increases in funding for Chapter 1, education for the handicapped, and aid to combat drug use. Appropriations for nondefense discretionary aid for postsecondary education students increased slightly in real terms between 1986 and 1987. In addition, the 1986 reauthorization of the Higher Education Act included changes in many postsecondary education programs.

Funding for community development programs remained about the same between 1986 and 1987, thereby declining in real terms. Although funding for housing fell by almost 20 percent in real terms, the number of additional housing units receiving assistance declined by less than 10 percent because the Congress shifted some aid to short-term vouchers. Finally, changes in medical care provided through the Veterans Administration targeted assistance more directly toward service-disabled and poor recipients.

Legislation passed in 1986, however, has made changes that will have long-term effects on federal responsibilities for funding certain facilities and services. Passage of the Omnibus Water Resources Development Act of 1986 established new rules for sharing some construction and operating costs with users and sponsors of projects for navigation, flood control, power, and other uses of water resources. The Federal Employees Retirement Act of 1986 required the U.S. Postal Service to carry a greater portion of the retirement costs for its work force, thus reducing an indirect subsidy. Finally, the 1986 Comprehensive Omnibus Budget Reconciliation Act reduced direct postal subsidies by changing the accounting rules by which they are calculated.

Political, economic, and technical events during 1986 will also affect nondefense discretionary spending. Ongoing changes in international capital markets have dried up the bulk of the subsidies conveyed in Export-Import Bank loans--all borrowers except those from the poorest developing countries now pay market terms. The accident that destroyed the space shuttle Challenger in January has changed space policy to a new strategy of using both unmanned rockets and manned shuttles to get payloads into space. This change may call into question plans for both replacing the Challenger and constructing the international space station.

Policies to revise the federal role in transportation also advanced in 1986. The sale of Conrail was approved in legislation that will provide around $2 billion in offsetting receipts in 1987. Moreover, under direction from the Congress, Amtrak has, since 1982, markedly improved its financial performance. During 1986, revenues rose by 4.3 percent while costs were cut by 2.3 percent. As a result, 62 percent of Amtrak's systemwide costs were covered from revenue, and its subsidy declined from $684 million in 1985 to $590 million. A plan to transfer Dulles and National airports to a regional commission in 1987 was approved. In the future, federal costs for the airports will be limited to the subsidy associated with issuing tax-exempt bonds to finance capital improvements.

The major environmental policy enacted in 1986 was the reauthorization of Superfund (the Comprehensive Environmental Response, Compensation and Liability Act of 1980). This legislation established a $9 billion, five-year cleanup program, to be financed from a combination of federal revenues and special taxes, that continues a trend toward greater federal outlays to address hazardous waste and toxic pollution. Other major environmental issues, including reauthorizing the Clean Water Act and controlling acid rain, have not yet been resolved.

Budgetary issues for energy development include possible responses to the depressed state of the oil and gas industries and proposals for reorganizing the power marketing administrations.

OPTIONS FOR REDUCING FUTURE SPENDING

The detailed options that follow for nondefense discretionary (NDD) programs are grouped to reflect different rationales for budgetary savings. All of the options presented here would cut nondefense discretionary spending by reducing federal activity. In addition, NDD-04 to NDD-11, would reduce federal support for programs whose goals either have been achieved or could be achieved even with lower spending levels. Options NDD-12 to NDD-16 would achieve savings by improving the efficiency of federally supported services, principally through greater reliance on user-fee financing. Unlike other options, this group typically envisages that others--users or state and local governments, for example--could increase their share of costs to make up for reduced federal spending. NDD-17 and NDD-18 would improve targeting of federal aid by eliminating or reducing spending for less needy recipients. The last group, NDD-19 to NDD-24, would eliminate federal support for activities with uncertain or distant future payoffs. Some options reflect more than one of the above rationales. For example, NDD-19 would either eliminate Community Development Block Grants because the assistance may not meet national goals or would limit eligibility for the grants to those jurisdictions most in need of assistance.

None of the options discussed in this section relies on revenue from asset sales to reduce the deficit during 1988-1992. Criteria used to select items for discussion applied a joint test that options both (a) reduce deficits within the 1988-1992 period, and (b) result in long-term reductions in federal (net) outlays. Thus, selling the Naval Petroleum Reserve is not discussed since the revenue from asset sales during 1988-1992 would be offset by the long-term loss of revenue from oil sales. Options that envisage asset sales (see NDD-16) estimate budgetary savings only for lower costs of operating assets or providing services, not for the proceeds of asset sales. (Alternatively, NDD-02, NDD-04, and NDD-15 discuss direct reductions in such operating subsidies.) Issues surrounding budgetary treatment of asset sales are discussed in Section I.

NDD-01 REDUCE FEDERAL SUPPORT FOR AGRICULTURAL RESEARCH AND EXTENSION ACTIVITIES

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Budget Authority	300	310	330	340	350	1,630
Outlays	230	270	300	310	320	1,430

The Department of Agriculture's Agricultural Research Service (ARS) and Cooperative State Research Service (CSRS) conduct and support agricultural research. ARS is the in-house research arm of the department, operating at locations throughout the country. CSRS provides support for research conducted at land-grant universities and other eligible state institutions. The Extension Service (ES) educates farmers and other rural residents in farming methods and conducts a nutrition education program aimed at low-income families throughout the country. The 1987 appropriation for these agencies totaled $1.1 billion. Reducing funding levels by 25 percent would save $1.4 billion over the 1988-1992 period.

Proponents of reducing support for these activities believe that federal research often works at cross-purposes with other federal policy goals. Some argue that money spent on research aimed at increasing productivity in these times of substantial surplus production could be better spent elsewhere. Furthermore, some research directly benefits groups that should either conduct it themselves or share in its cost. Others argue that government research may result in larger, more capital-intensive farms rather than maintaining family-sized farming operations.

Advocates of reducing activities of the Extension Service cite the relatively large portion of the ES budget that does not benefit farmers. The President's 1987 budget contained a proposal to eliminate most ES activities other than those directly aimed at assisting active farmers.

Opponents point to the importance of both research and extension in the development of an efficient agricultural sector. They cite the benefits to consumers and the need to maintain the competitive position of U.S. farmers in world markets.

NDD-02 REDUCE NEW LENDING OR INCREASE HOMEOWNERS' PAYMENTS UNDER RURAL HOUSING LOAN PROGRAM

Savings from CBO Baseline	Annual Savings (millions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Savings
Reduce New Lending						
Budget Authority	520	640	580	550	540	2,820
Outlays	500	620	610	610	600	2,940
Increase Borrowers' Payments						
Budget Authority	-15	-30	--	40	80	75
Outlays	35	75	120	160	200	590

The Section 502 housing program, administered by the Farmers Home Administration (FmHA), provides mortgages at effective interest rates as low as 1 percent to enable low-income borrowers to purchase homes while spending only 20 percent of their incomes on mortgage payments, property taxes, and insurance. The FmHA's major cost is the difference between the rates it pays for the funds it borrows to finance the program and the rates borrowers pay for FmHA mortgages. During 1985, more than 40,000 rural households with incomes below a level that ranges between $11,500 and $18,000, depending on area housing costs in the continental United States, purchased single-family homes with loans at reduced interest rates from the FmHA. Two approaches for reducing federal costs under this program are described here.

Reduce New Lending. If new lending under the Section 502 program were halved, the number of new households that would receive the deep subsidies now provided to a small proportion of all eligible households would be reduced. Some critics of this program argue that making such sizable payments to so few households is not the best use of scarce federal resources. On the other hand, this approach would weaken a program that has enabled some low-income rural households to become homeowners. Halving new lending would reduce federal outlays by about $500 million in 1988 and $2.9 billion in the 1988-1992 period.